

S T A T E O F W A S H I N G T O N

PROPOSED 2004

BUDGET AND POLICY HIGHLIGHTS

We will make education the first priority in every budget we write.

— Governor Gary Locke
Inaugural Address, January 15, 1997

GOVERNOR GARY LOCKE
OFFICE OF THE GOVERNOR



PROPOSED 2004 BUDGET AND POLICY HIGHLIGHTS

Office of the Governor
DECEMBER 2003

Contents

I. Setting Priorities, Getting Results

Proposed Budget Expenditures	3
State's Economic Picture Improves	6
Balance Sheet.....	7

II. Budget and Policy Overview

Creating Prosperity Through Education	9
Providing Critical Services to the Most Vulnerable.....	11
Speeding the Economic Recovery	13
Focusing on Public Safety Priorities.....	15
Improving State Government Services	17
Protecting Water for People, Fish and Agriculture	19
Meeting Critical Building Needs	21

Setting Priorities, Getting Results



Governor Locke announces innovative "Priorities of Government" budget, December 2002

"We are focusing on results that people want and need, prioritizing those results, and funding those results with the money we have."

Governor Gary Locke
November 14, 2002

Governor Gary Locke's 2004 supplemental budget proposal invests in Washington State's highest priority – education – while sticking to the same principles that guided state government through its most serious budget crisis in 20 years.

Priorities

It is an extension of the Governor's Priorities of Government budget, which cut state programs by \$2.6 billion when the Legislature adopted the 2003-05 spending plan just six months ago.

And it is proof that the Governor's pioneering approach succeeded in reducing government while preserving programs that matter most.

Funding the basics

The budget is fundamental. It makes adjustments in the underlying two-year state budget to pay unavoidable costs driven by revisions to official forecasts for public school enrollment and social-service caseloads. And it pays the unpredictable costs of wildfires and floods.

Building better lives

This budget is also far-reaching, recognizing that higher education plays a vital role in powering our state to economic recovery. The Governor's proposal expands state-funded enrollment at state colleges and universities by as many as 5,200 full-time students and builds new facilities for higher learning. At the same time, it improves access to quality medical services in rural areas and keeps health care available and affordable for low-income families throughout the state.

Sustaining a disciplined approach

The Governor's \$193 million supplemental General Fund budget follows his disciplined Priorities of Government approach. It makes strategic choices to fund services and programs most essential to achieving the results that citizens want from state government, all within existing resources.

The net General Fund spending increase represented in this budget is less than 1 percent of the two-year, \$23 billion budget the Governor signed into law in June.

“We’ve made great progress in making our state more competitive...and we must harness higher education to help drive economic growth.”

Governor Gary Locke
October 6, 2003

Education is the highest priority

In keeping with his Priorities of Government approach, \$45 million in new General Fund spending proposed by the Governor goes to the state’s highest priority – education. This budget increases state college and university enrollment, especially in high-demand fields. It doubles the value of Promise Scholarships. It improves K-12 learning assistance and testing in public schools.

Paying unavoidable bills

Most of the supplemental General Fund budget pays for unavoidable costs driven by unanticipated increases in public school enrollment, state prison population and people in need of medical assistance, as well as bills for wildfires and floods, the cost of the voter-mandated home-care workers contract and other mandatory expenses.

Capital budget creates more jobs

Separate from the General Fund budget, the Governor’s supplemental Capital Budget uses bonds to finance an additional \$168 million in new construction to provide new classroom and research facilities at higher education institutions, improve the state’s water supply and start a much-needed new prison.

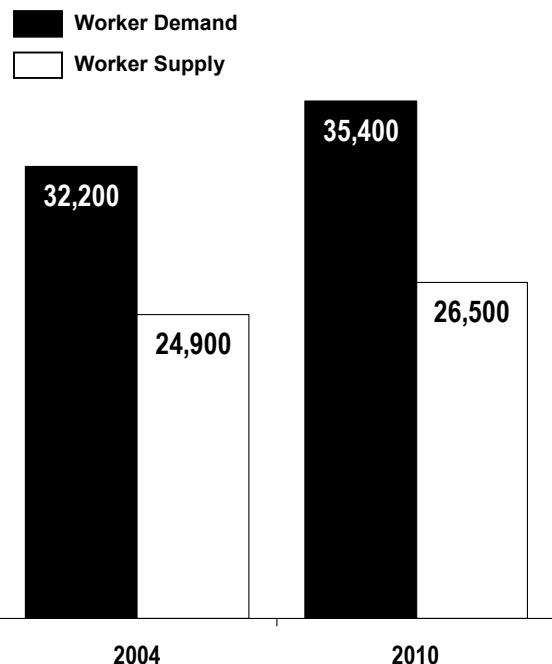
Maintaining Washington’s competitive edge

The Governor’s commitment to economic development continues. His budget plan foregoes potential new revenue, choosing instead to continue \$74 million worth of business tax incentives to help keep Washington’s competitive edge in technology research and development, and to attract more manufacturing jobs to rural areas.

A responsible spending plan

The combination of reserves in the underlying biennial budget and new revenue generated by the improving economy finances the supplemental budget and still leaves \$172 million in reserve for emergencies.

Budget Addresses Projected Gap Between Demand for Workers with Community College or Technical School Training and Supply of Qualified Workers



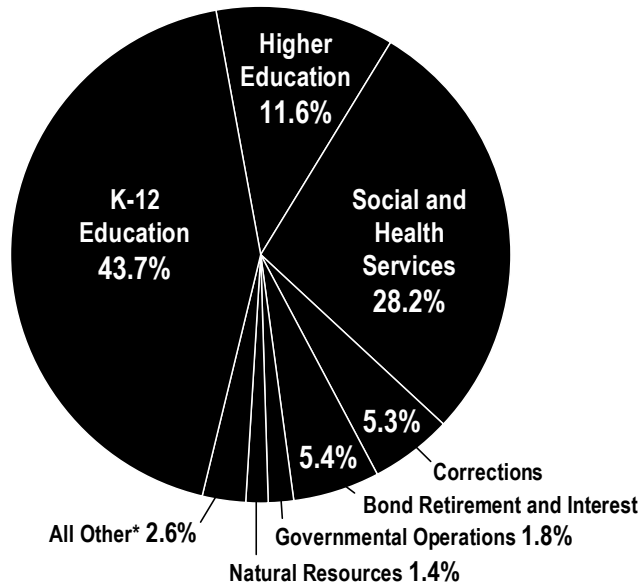
Source: Workforce Training and Education Coordinating Board

Proposed Budget Expenditures

Including Governor Locke's Proposed 2004 Supplemental Budget

General Fund-State: Operating

Distribution of 2003-05 General Fund-State Expenditures

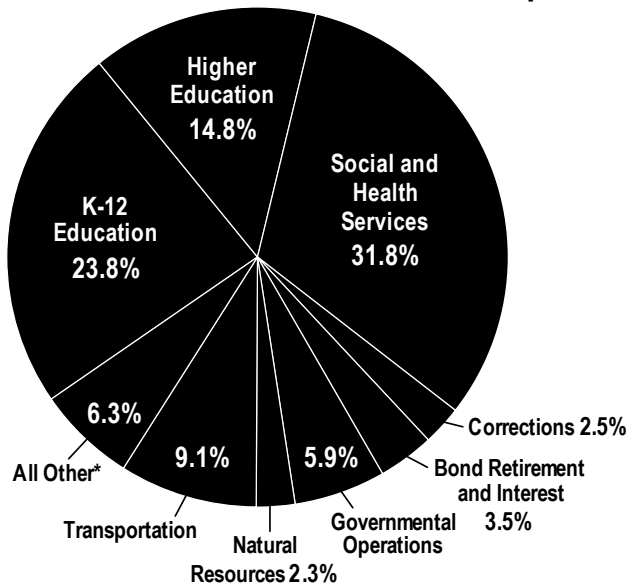


Category	Dollars in Millions
K-12 Education	\$10,161
Higher Education	2,709
Social and Health Services	6,556
Corrections	1,242
Bond Retirement and Interest	1,244
Governmental Operations	414
Natural Resources	336
All Other*	612
TOTAL	\$23,274

*Other includes Legislative, Judicial, Other Human Services, Transportation, Contributions to Retirement Systems, Other Education, and other appropriations.

All Funds: Operating Plus Transportation Capital

Distribution of 2003-05 All Funds Expenditures



Category	Dollars in Millions
K-12 Education	\$11,995
Higher Education	7,446
Social and Health Services	16,011
Corrections	1,272
Bond Retirement and Interest	1,791
Governmental Operations	2,996
Natural Resources	1,137
Transportation	4,581
All Other*	3,178
TOTAL	50,407

*Other includes Legislative, Judicial, Other Human Services, Contributions to Retirement Systems, Other Education, and other appropriations.

What does this state supplemental budget do?

It offers a reasonable spending plan focused on the highest priorities.

**Priority:
Pay for the
basics**

Ahead of everything else, state government must provide Washington's children a basic education. It also must incarcerate dangerous criminals to keep our communities safe, provide a social-services safety net for our most vulnerable residents and be prepared to respond to public safety emergencies. Much of the supplemental budget goes to costs driven by revisions made by the state Forecast Council in projections the Governor and Legislature are required to use in developing budgets.

Nearly \$47 million of the supplemental budget goes to cover the cost of teaching more K-12 students and rising student-transportation costs, \$31 million pays the costs of last summer's wildfires and this fall's flooding, and \$2 million addresses the latest social-services caseload projections.

**Priority:
Improve
access to
college**

Washington residents are demanding more access to state colleges and universities. Meanwhile, certain economic sectors can't find enough skilled workers in Washington to meet their needs. Hospitals need nurses, high-tech firms need talented individuals and special education classrooms need teachers.

This budget spends an additional \$30 million to increase college and university enrollment by as many as 2,727 full-time students in high-demand fields and to

improve state support of higher education by expanding state-funded general enrollment by 2,500 full-time students.

The value of Promise Scholarships for high-performing high school students in low- and middle-income families is doubled to 80 percent of community college tuition. And \$3 million in new funding is provided as state matching grants to attract and keep federal research grants at state universities.

**Priority:
Help school
children
succeed**

Struggling students need extra help in critical school subjects. Without it, they are in danger of falling behind – with little chance of catching up. This budget provides \$7 million in new spending for the Learning Assistance Program, which helps underachieving K-12 students meet state standards in reading, mathematics and writing. This funding also pays for technical help for schools that fail to meet goals for academic improvement, which is critical in preparing for the state's new high school graduation requirements.

Properly measuring a student's performance is necessary to ensure they receive the right attention. The budget contains \$1 million to ensure that Washington Assessment of Student Learning (WASL) tests are fair and equitable.

**Priority:
Make state
government
better**

Governor Locke is pleased at progress in putting state services on the Internet so citizens can go on-line to do everything from pay business taxes to register their vehicles. But more can be done. This budget proposal makes it possible to renew driver licenses on-line or through the mail. It also improves the accuracy and reliability of Washington's voting system, including steps to make it easier for disabled citizens to vote

It is based on intelligent choices. And it zeroes in on what must be done to give citizens the greatest return on their tax dollars.

Washington's economic future hinges on homegrown, cutting-edge research and development in such fields as biotechnology, advanced materials and computing. Governor Locke's budget foregoes \$59 million in new revenue by extending two business-tax exemptions for research in specific technology areas, and for building research facilities. The Governor also encourages continued investment in rural Washington. He extends the sales tax exemption on construction of manufacturing facilities in rural areas, foregoing \$15 million in new revenue.

Priority:
**Make our
economy
grow**

Local governments get a new tool to attract new business development. At a state cost of \$5 million a year, local governments willing to invest in new infrastructure – such as roads and sewers – get to keep part of the state taxes generated by the new business growth that new infrastructure attracts.

Too often, rural residents must drive many miles to see a doctor, if there is one available at all where they live. The same is true for a visit to the dentist. Governor Locke's budget contains \$14 million, plus \$10 million in federal funding, to encourage more doctors, dentists and nurses to practice in under-served areas of the state. The incentives range from making it easier for retired physicians to volunteer their services to helping health care professionals finance their educations in exchange for working in rural areas. School-nurse services for children in rural areas also are improved.

Priority:
**Provide
access to
health care**

The Governor's budget reduces scheduled health care premiums to be charged to parents of children receiving state-sponsored Medicaid health coverage, and abolishes premiums for families with incomes up to 150 percent of the federal poverty level.

The Governor's proposal protects the safety of Washington citizens. It spends \$81 million to confine more prison inmates expected to be sentenced to state corrections facilities during the remainder of the current, two-year budget period, as well as supervise prisoners after they are released.

Priority:
**Protect our
citizens**

Along with this expenditure, legislation is proposed to release low-risk prison inmates and take other steps to save \$18 million in Department of Corrections costs. Funding also is provided to support homeland security and take more drunk drivers off the road.

As Washington grows, so must our water conservation efforts. The Governor continues a multi-year effort to preserve our fresh-water resources by including \$3 million to finance proposed water-law changes that provide clean water for people, fish and agriculture.

Priority:
**Be smarter
with water**

These measures discourage practices that waste water, boost confidence in existing water rights and simplify the way water rights are administered by the state. In addition, the capital budget includes \$16 million for construction projects to improve water storage, irrigation efficiency and wastewater reclamation.

State's Economic Picture Improves

The Present

Although the last national recession ended more than two years ago, the nation and Washington State only now are emerging from lingering economic weakness. For both, the recovery is the longest without a sustained increase in employment in post-war history.

Washington's employment levels stabilized in 2003 after reaching an unemployment rate of 7.2 percent. Still, the state continues to have one of the highest jobless rates in the country. Employment is not expected to improve markedly until 2005. Other indicators of economic health were more positive this year. Personal income grew at a more robust rate of 4.3 percent in the period, up by 1 percent from 2002.

The aerospace industry continued to shed jobs during the year, with a drop of 15.3 percent. The recent recession hit other manufacturing employment hard in Washington, along with the rest of the country. Washington manufacturing employment excluding aerospace fell by 5.2 percent, marking the fifth year in a row that manufacturing employment in Washington declined.

The Future

The economy gradually will improve over the next two years. The state Economic and Revenue Forecast Council expects Washington's economic activity to pick up slightly in 2004 and strengthen significantly in 2005. Growth in wage and salary employment is predicted to increase by only 0.1 percent next year but return to growth of 2 percent in 2005, a rate closer to the long-term average. Washington's employment performance is expected to be comparable to national growth rates for both years.

Washington's personal income growth will rebound in both years, with growth of 3.8 percent and 4.9 percent, respectively. However, the state's personal income growth will lag slightly behind the U.S. as a whole, which is predicted to be 4.2 percent in 2004 and 5.5 percent in 2005.

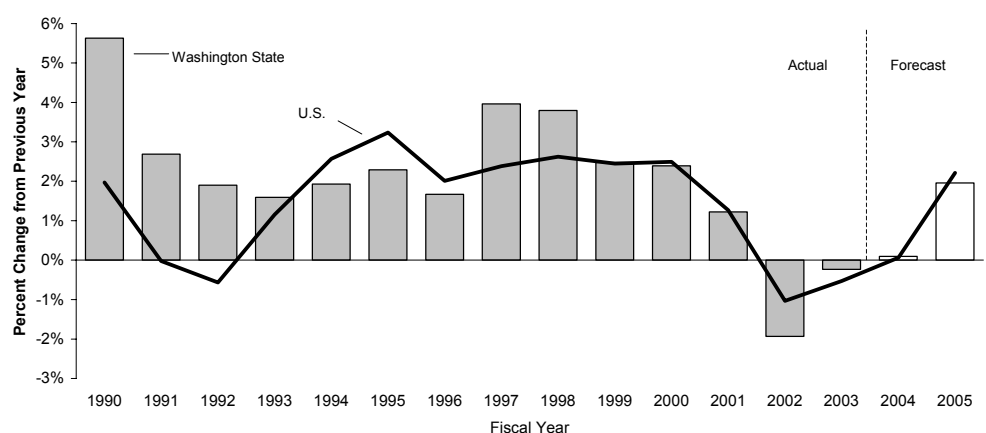
Manufacturing employment in Washington is projected to continue its decline in both 2004 and 2005. The

current fall in aerospace employment is expected to continue, with a further drop of 12.2 percent next year, followed by a decline of 4 percent in 2005. Other manufacturing sectors are expected to decline next year by about 3,400 jobs, a 1.7 percent decrease. However, growth is expected to return in 2005 with an increase in manufacturing employment excluding aerospace of 0.5 percent, or about 1,000 jobs.

In the non-manufacturing sectors, the strongest growth is predicted to occur in the information sector, with an employment growth increase of 0.8 percent next year followed by a large rebound of 6.1 percent growth in 2005. Financial activities employment growth is expected to be another bright spot in the coming recovery. Employment growth in that sector should grow by a relatively strong 2.5 percent next year and by 2.3 percent the following year. Retail trade employment is forecast to show slightly positive growth of 0.7 percent next year and 0.9 percent in 2005. Employment growth in transportation, warehousing and utilities is expected to see no growth next year but bounce back strongly with 4.3 percent growth in 2005. Employment in the services industries is forecast to grow by 0.9 percent next year and 3.1 percent in 2005.

The worst growth performance among the non-manufacturing sectors is predicted to occur in the natural resources and mining industries. Employment in these industries is expected to fall by 7.8 percent in 2004 and by 1.8 percent in 2005. State and local government employment is expected to continue showing the impacts of budget cuts with a decline of 0.6 percent in 2004 and a modest increase of 0.5 percent in 2005. Federal government civilian employment is forecast to fall next year by 1.6 percent and then grow slightly by 0.3 percent the following year.

Percent Change in Wage & Salary Employment
Washington State vs. U.S. Average



2003-05 Balance Sheet

Including Governor Locke's Proposed 2004 Supplemental Budget

General Fund - State and Emergency Reserve Fund

(Dollars in Millions)

RESOURCES	
Beginning Fund Balance	408.4
November 2003 Revenue Forecast	22,820.9
Enacted Budget Transfers	138.8
Federal Fiscal Relief - Grant	90.2
2004 Supplemental Revenue and Resource Changes	
Extension of Expiring Tax Incentives	(74.3)
Adjustment to Student Achievement Fund Transfer	(0.2)
Agency Request Legislation	2.1
Budget Driven Revenue	(0.1)
Transfers from Other Accounts	42.1
Changes in Reserves/Other Adjustments	18.2
Total Resources (Includes Fund Balance)	23,446.1
EXPENDITURES AND SPENDING LIMIT	
Current Biennial Appropriation	23,081.4
Governor's 2004 Supplemental Budget	192.7
National Guard Activation for Floods	0.1
	23,274.2
Adjusted I-601 Expenditure Limit	23,588.2
UNRESTRICTED GENERAL FUND RESERVE	
Projected Ending Fund Balance	171.9
EMERGENCY RESERVE FUND	
Beginning Fund Balance	57.6
Transfer to General Fund	(57.6)
Projected Ending Fund Balance	0.0
TOTAL RESERVES	
Combined General Fund and Emergency Reserve Fund Ending Balances	171.9

2004 Supplemental Balance Sheet Detail for Revenues and Fund Transfers

General Fund - State

(Dollars in Millions)

EXTENSION OF EXPIRING TAX INCENTIVES	
Research and Development Tax Incentive Package	(58.9)
Rural Economic Development	(15.4)
	<u>(74.3)</u>
AGENCY REQUEST LEGISLATION	
Estate Tax Administration	0.0
Exempting Fuel Cells from Use Tax	(0.1)
Streamline Sales Tax Conformity	2.2
Streamline Sales Tax Corrections	0.0
	<u>2.1</u>
BUDGET DRIVEN REVENUE	
Change to Liquor Control Board Budget Affecting Revenues to GF-S	(0.1)
TRANSFERS FROM OTHER ACCOUNTS	
K-20 Technology Account	0.0
Insurance Commissioner's Regulatory Account	1.0
Financial Services Regulation Account	5.6
State Treasurer's Service Account	3.0
Education Technology Revolving Account	1.0
Department of Retirement Systems Expense Account	2.0
Gambling Revolving Account	3.0
Health Services Account	26.5
	<u>42.1</u>



Creating prosperity through Education

Governor Locke believes a good education provides the foundation for success – for individuals and for the entire state. A well-educated Washington means better, happier lives, fewer social costs and a stronger economy. Building strong public schools and state colleges and universities remains the Governor's highest priority.

The Governor's Proposal:

Strengthens higher education's role as an economic stimulus by constructing badly needed capital projects at our state colleges and universities. These investments will create family-wage construction jobs now, and by building new and renovated instructional space, provide new job opportunities for Washington residents tomorrow.

\$92.6 million Capital Budget

Increases state-funded higher education enrollment by as many as 5,200 full-time students, providing the access that citizens seek, and the well-educated, well-trained graduates that Washington businesses need to remain competitive. Funding is provided for as many as 2,727 students in high-demand fields such as health care, computer science, math and special-education instruction. The number of state-funded general enrollments also is expanded by 2,500.

\$30 million GF-State

Delivers on the promise made to more than 7,000 high-achieving students per year by doubling the grant award levels for Promise Scholarship recipients to 80 percent of the cost of community college tuition. Promise Scholarships reward students from low- and middle-income families who graduate in the top 15 percent of their high school class. High-achieving students across the state earn two-year Promise Scholarships, which may be used at any accredited college or university in Washington.

\$6.7 million GF-State

Governor Locke's Priorities for Education

- ✓ Increase opportunities for students and improve the business climate by boosting higher education enrollment
- ✓ Build higher education capital projects, creating jobs now and in the future
- ✓ In public schools, help struggling students and ensure fair and accurate K-12 student testing

High-Demand Enrollments

The Governor's Supplemental Budget Proposal Expands High-Demand Enrollment by as Many as 2,727 New Students

4,346
Student
FTEs

1,619
Student
FTEs

2003-2005
Budget

Governor's Proposed
Supplemental Budget

Source: Office of Financial Management

Commitment at the Grassroots

Vancouver school makes a difference

As the push continues to improve learning in Washington's public schools, some teachers, students and parents are quietly working to make their schools true places of achievement -- even against long odds.

One such school is Martin Luther King Elementary School in Vancouver, where a majority of children are from low-income families, and where a large number of the children learn English as a second language.

Yet, at Martin Luther King, the 520 students are thriving.

Students' unexcused absences have dropped way down -- in fact, there were none last year -- and achievement test scores are rising dramatically.

In 1996, Washington Assessment of Student Learning (WASL) scores at the school were dismal. Since then, they have risen steadily, and last year was no exception. In 1996, students scored 10.5 percent in math. Last year, the WASL score was 61.3 percent. Over the same period, reading scores went from 36.4 percent to 65.6 percent, and writing scores rose from 23.2 percent to 62.4 percent.

At Martin Luther King Elementary, they are breaking the mold:

- One-on-one attention is stressed through many small, flexible instructional groupings so that a student's needs can be quickly identified and addressed.
- Reading and writing skills are a core priority.
- Each student's performance is reviewed regularly, and more attention is focused on students found to be falling behind.
- Experienced teachers mentor new teachers and teamwork is part of the curriculum.
- School rules are clear and consistently enforced. The district's zero tolerance of violence creates a place where students feel safe. Students at Martin Luther King regularly practice conflict-resolution skills.
- Parents, volunteers and community organizations are an integral part of the school, and are relied upon to ensure successful programs.

Bottom Line: Dedicated teachers, students, parents, and volunteers are working together to create a solid learning environment for school children -- even in the face of serious obstacles.

Provides a catalyst to create and expand

Washington businesses by providing state research and development funding to attract or retain federal grants at state research universities. These investments, which build on recommendations of the Washington Competitiveness Council, are directed toward high-demand and technologically advanced fields. *\$3 million GF-State*

Provides additional K-12 funding to finance increased numbers of children enrolling in Washington public schools. This school year brought 1,547 more students than anticipated. In the 2004-05 school year, enrollment is estimated to rise by an additional 3,000 students. The additional funding also covers rising student transportation costs.

\$46.7 million GF-State

Helps underachieving K-12 students who need more assistance in reading, mathematics and writing. The Learning Assistance Program for at-risk students is improved and data-driven programs monitor school performance. Technical help is provided to schools that fail to meet academic improvement goals.

\$7.1 million GF-State

Makes sure high-stakes tests are fair and equitable. Starting in 2008, requirements for high school graduation include passing the Washington Assessment of Student Learning (WASL) in reading, writing and math, with science added in 2010. Funding ensures that the WASL conforms to state expectations.

Opportunities to retake tests are provided, along with alternative ways for students to demonstrate mastery of state standards. Starting in 8th grade, students who don't meet standards on the WASL are the focus of plans outlining what they need to accomplish to graduate from high school. *\$1.2 million GF-State*



Providing critical services to the **Most Vulnerable**

Caring for Washington's most vulnerable citizens requires constant vigilance. A growing number of people need services. Programs to serve them must be adjusted so they work better. Governor Locke won't ignore the priority needs of the most vulnerable among us.

The Governor's Proposal:

Provides more doctors and nurses in rural areas. The Health Professional Loan Repayment Program triples the number of health care providers – to 50 – who get help paying off education loans on condition they practice in under-served areas. Additional support to help retired doctors pay malpractice insurance triples – to 210 – the number of physicians who volunteer their professional services in rural areas. The Nurse Corps in public schools is expanded by up to 25 part-time nurses to care for under-served children in rural areas. Funding also is provided to complete telecommunications improvements that help rural hospitals diagnose and treat patients.

\$3.7 million Health Services Account

Increases Medicaid reimbursement payments to doctors for childbirth services, helping family doctors continue to serve low-income patients, especially in under-served rural areas. The proposal takes advantage of a provision in the recently enacted federal Medicare Prescription Drug bill that allows an increase in federal allotments of Disproportionate Share Hospital payments.

\$10 million Health Services Account, \$10 million federal

Reduces the impact of pending health care premiums that will be charged to parents of children receiving state-sponsored, optional Medicaid health coverage. The premiums take effect in January. The Governor's proposal reduces scheduled premiums to \$10 or \$15 per child per month, depending on family income, and abolishes premiums for families with incomes up to 150 percent of the federal poverty level, which for a family of three is \$1,900 a month.

\$23.4 million Health Services Account

Shares new federal assistance with public hospital districts to improve community-based health services. *\$6.6 million Health Services Account*

Governor Locke's Priorities for *Human Services*

- ✓ Maintain an effective health and social services safety net
- ✓ Continue to adequately support programs that protect the most vulnerable
- ✓ Invest in targeted initiatives to make programs work better

Help for Chronic Illness and Addiction Sufferers

DSHS staff sees lower medical costs through new treatment approach

Among low-income citizens who look to Washington State for help, few are as difficult to steer toward better lives than people with chronic illnesses combined with drug and alcohol problems.

Nonetheless, state alcohol and drug counselors found a new approach to treatment that not only eases the suffering, but also saves Washington taxpayers significant money.

Just as important, the staff at the Washington Division of Alcohol and Substance Abuse created a treatment approach that can be used in other social service endeavors with the same result – better treatment at less overall cost.

Division workers have known for years that clients with chronic illnesses, and who also suffer from addictions, tend to run up expensive state-paid medical bills and engage in destructive behaviors, including crime. Sixteen percent of clients with chronic illnesses have serious drug and alcohol problems.

Division workers asked: What if more dollars were spent now to treat their addictions and it resulted in lower medical costs later, saving significant money? The workers cut red tape to shift dollars from the medical care budget to alcohol and drug treatment. They kept track of two groups: one received more drug and alcohol treatment; and the other, the control group, received the current level of treatment. They found that more treatment not only improved lives, but also was cost-effective:

- Clients who received additional treatment cost a net \$252 per person a month less in medical expenses than those who did not receive the extra treatment. Annually, the approach saved Washington taxpayers \$2.5 million.
- For those with a criminal history, annual arrest rates fell from 36 percent to 22 percent.
- The approach was made permanent in the division, promising to save significant dollars in the future, and improve the lives of chronically ill clients and their families. A similar project was begun for welfare clients.

Bottom Line: The Division of Alcohol and Substance Abuse saves taxpayers \$2.5 million a year, bettering the lives of chronically ill people and their families, reducing crime and creating a successful treatment approach that can be adapted to other circumstances involving people facing serious life problems.

Creates the Patient Compensation Fund in the Office of the Insurance Commissioner, providing seed money to make malpractice insurance more affordable and more available to health care professionals. The fund will help cover settlements in excess of mandated levels of insurance coverage for providers who participate in the program.

\$10 million Health Services Account

Funds the home-care workers contract, if approved by the Legislature. Under terms of a collective bargaining process mandated by a voter-approved initiative, home-care workers receive a 50-cent per hour wage increase, workers compensation benefits and limited health care benefits.

\$24 million GF-State, \$23.3 million federal

Funds a federal requirement controlling how State Supplemental Payments (SSP) are disbursed to low-income disabled citizens, ensuring the state remains eligible for federal Medicaid funds. *\$38 million GF-State*

Makes the community safer, providing care for some citizens with developmental disabilities who suffer behavioral problems or mental illnesses. An additional 49 beds in supervised community residential facilities are funded for clients soon to be discharged from prison or state psychiatric hospitals. Funds to better assess the needs of all clients with developmental disabilities also are provided.

\$3.3 million GF-State, \$3.1 million federal

Boosts funding for the General Assistance Unemployable (GAU) program in response to the latest caseload forecast for unemployable people who will need assistance in the current biennium. *\$25 million GF-State*



Speeding the Economic Recovery

Washington's economy is led and driven by an entrepreneurial spirit. But Governor Locke believes that helping business succeed, especially as the state's economy recovers from the national recession, is a priority that citizens expect. The state can help through targeted tax incentives and investments that make it easier for businesses to thrive.

The Governor's Proposal:

Encourages research and development in Washington.

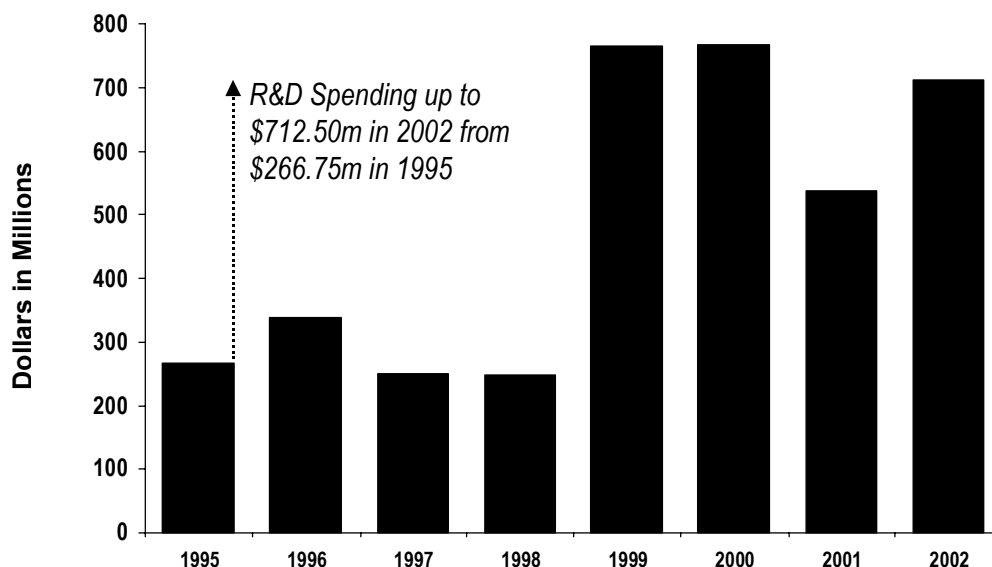
Tax incentives for research in specific technology areas, and for building research facilities are extended. The incentives include sales tax deferrals and exemptions for qualified investments in research and development facilities, and a business-and-occupation tax credit for qualified research and development expenses. Qualified industries include advanced computing, advanced materials, biotechnology, electronic device technology and environmental technology. Accountability tools to measure the long-term effectiveness of incentives are provided. *Reduces revenue \$58.9 million*

Governor Locke's Priorities for the **Economy**

- ✓ Ensure that Washington competes in the Innovation Economy
- ✓ Maintain efforts to attract business to rural Washington and keep the commitment to agriculture
- ✓ Encourage research and development that helps businesses thrive

Research and Development Spending Increases

Spending by Companies Qualifying for Tax Credit Program



Source: Department of Revenue

Help for Rural Communities

Community Economic Revitalization Board provides aid through loans and grants

A little-known state economic development board has done much in recent years to create more steady jobs in rural Washington, where the pickings can be slim and the competition tough.

The agency is called the Community Economic Revitalization Board (CERB), which develops very basic help that rural communities often need to lure business development and jobs. The board provides generally modest loans and limited grants, which communities use to leverage even more dollars to finance roads, sewers and other facilities needed to attract new businesses.

It was exactly this kind of aid that helped bring 58 good jobs to the city of Blaine in Whatcom County in the form of an organic breakfast food plant – Nature's Path.

The company, a solid, top seller of organic breakfast foods in the country, opened a plant at Blaine's industrial park a few years ago after the city made substantial infrastructure improvements to accommodate the company.

The CERB loaned Blaine \$428,258 toward the cost of the improvements, and the city leveraged the funds to raise \$2.9 million in city, state, federal and private funds to fully finance improvements from better sewers to electrical upgrades.

The plant, which produced more than 11 million pounds of breakfast cereal in 2002, has begun a \$2.5 million expansion three years ahead of schedule, and plans to add 10 to 12 more full-time positions when the expansion is completed.

Similar success stories can be found in 35 other Washington counties, where a little bit of help goes a long way toward creating steady paychecks.

The program has provided loans and grants totaling \$92 million over the last 20 years, helping to create and keep an estimated 19,000 jobs while stimulating nearly \$1.5 billion in private business investment.

Bottom Line: Using relatively modest funding, a state board is successfully helping small Washington communities afford the public improvements necessary to attract new commerce and bring in steady paychecks for citizens.

Encourages investment in rural Washington.

The sales tax exemption on construction of manufacturing facilities in rural areas is continued, as is the business-and-occupation tax jobs-credit. The B&O tax credit for help-desk enterprises in rural areas also is continued.

Reduces revenue \$15.4 million

Helps local governments attract and expand new businesses with investments in sewers, roads and other infrastructure. Local governments willing to invest in their own infrastructure are allowed to keep some of the state taxes generated when businesses take advantage of these improvements and locate or expand in local communities. State taxes retained by local governments are used to pay bond debt on infrastructure improvements.

\$10 million in 2005-07 Biennium, but no cost in current biennium

Continues agriculture promotion efforts that support the state's rural economy. The program called "From the Heart of Washington," which provides advertising and in-store labeling for Washington-produced agriculture products, is maintained for the second year of the current biennium. Funding for a state trade representative for China and Southeast Asia is continued for the second year. Funding is increased for the Small Farm and Direct Marketing program. *\$380,000 GF-State*



Focusing on Public Safety Priorities

One of Washington State government's primary tasks is to protect the safety of its citizens. That's why Governor Locke focuses on the priorities of public safety – getting dangerous criminals off the streets while reducing prison costs, fighting wildfires and being prepared for emergencies such as terrorist attacks.

The Governor's Proposal:

Pays state costs for fighting wildfires last summer, and responding to fall floods. *\$31 million GF-State, \$736,000 other state funds*

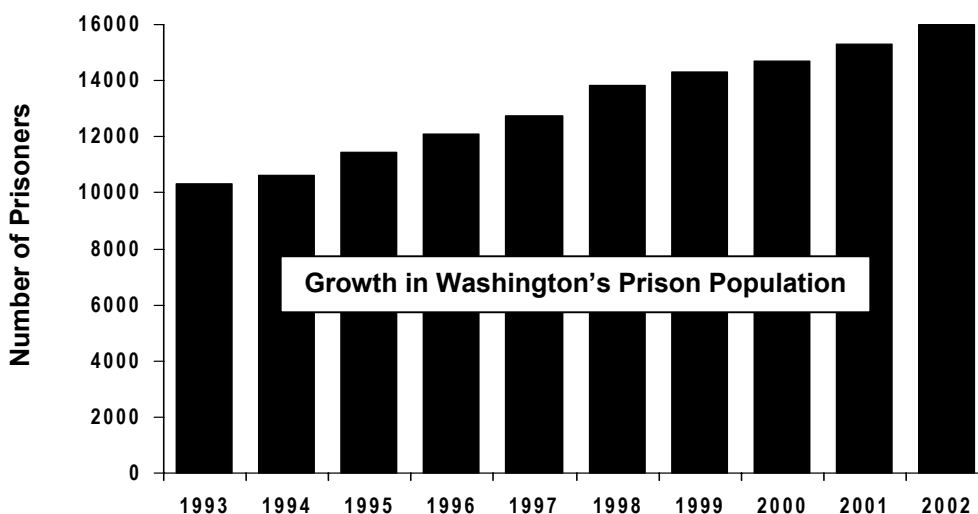
Keeps dangerous offenders behind bars by paying for a 5.7 percent increase – an average of 950 inmates – in the latest forecast for the state prison population. The actual number of high-risk offenders needing supervision after release also is funded. *\$81 million GF-State*

Supports homeland security with new federal funding for first responders, an emergency communication system that works across all jurisdictions, critical infrastructure assessment, citizen preparation and terrorism prevention. Eighty percent of these funds go to local governments. *\$60.8 million federal*

Governor Locke's Priorities for **Public Safety**

- ✓ Prevent crime, accidents, injuries and property damage
- ✓ Be prepared for natural disasters or the threat of terrorism
- ✓ Keep the most dangerous criminals behind bars

Demand for Prisons Up More Than 60% in the Last 10 Years



Source: Caseload Forecast Council

Cuts prison and supervision costs by reducing the average number of drug offenders in prison by about 500, and the number of low-risk offenders under supervision by about 2,000. This is accomplished by applying a new drug-sentencing grid to those previously convicted, and by eliminating state supervision of most low-risk, non-felony offenders who have completed jail sentences. Strengthens supervision of offenders required to get drug treatment as part of their sentence. *Saves \$18.1 million GF-State*

“Long Distance Dads”

McNeil Island’s approach for fostering relationships between children and their imprisoned fathers

Researchers know that kids without dads are far more likely to commit crimes than kids whose fathers are part of their lives when they are growing up.

That’s why staff at the McNeil Island Correctional Center launched a pilot program to bring fathers in the general prison population together with their children in hopes that for these families, at least, the cycle might be broken.

The state Department of Corrections program is a success in many ways – from the simple joy it brings to fathers and kids to a marked decrease in prisoner misconduct among participating fathers, and an increase in child support payments made by those fathers.

Indeed, the 41 men in McNeil’s “Long Distance Dads” program had 44 percent fewer prison infractions from 2000 to 2001, and 32 percent fewer from 2001 to 2002. Moreover, the number of men making monthly child support payments in 2000 increased four-fold the following year.

To make the visits and other contacts with their children more valuable, fathers take classes to learn parenting skills and how to better understand – by examining their own family history – the roots of destructive behavior. Fathers develop skills to forge more positive relationships with their own children.

Among other activities, children receive tapes from their fathers in which Dad reads a story to his child and the child follows along at home with a book. Children receive homework help from their fathers, and fathers have telephone conferences with their children’s teachers.

Bottom Line: State corrections department employees are seeing tangible results in their effort to create father-child relationships to reduce future crime and better the lives of children whose fathers are in prison.

Provides secure treatment for sex offenders at the new Special Commitment Center on McNeil Island, and in community settings when courts order their release. *\$3.1 million GF-State*

Streamlines criminal justice information with a new Summary Offender Profile – part of the Justice Information Network that links police, court and corrections data about offenders.

\$150,000 Public Safety and Education Account

Takes more drunk drivers off the road with 60 new breath test instruments and 55 video cameras in State Patrol vehicles. Funding comes from drivers convicted of driving while intoxicated, and from a federal grant. Enforcement of ignition interlock requirements for drunk drivers is strengthened. *\$948,000 State Patrol Highway Account, \$73,000 Highway Safety Fund*

Increases truck safety inspections to ensure drivers are qualified and drug-free, loads are secure and other standards are met. The State Patrol inspects for safety rule compliance before accidents happen and steps up inspections of trucks entering Washington from Canada.

\$873,000 State Patrol Highway Account

Fights identity theft and fraud with a new State Patrol detective unit, working with the Department of Licensing. *\$265,000 Highway Safety Fund*

Helps solve violent crimes by hiring two additional investigator-analysts for the Attorney General’s Homicide Investigation Tracking System (HITS). *\$187,000 Public Safety and Education Account*



Improving State Government Services

State government efficiency is not a slogan in Washington. It is an essential element of a government that wins national awards for its on-line innovations, maintains the confidence of its citizens and saves scarce dollars for vital services. Governor Locke continues his multi-year effort to reduce costs and make government easier for citizens to use.

The Governor's Proposal:

Makes it easier to renew driver licenses. Funding implements on-line and mail-in renewal of driver licenses. Long lines and processing costs are cut, making license renewal more convenient for motorists.

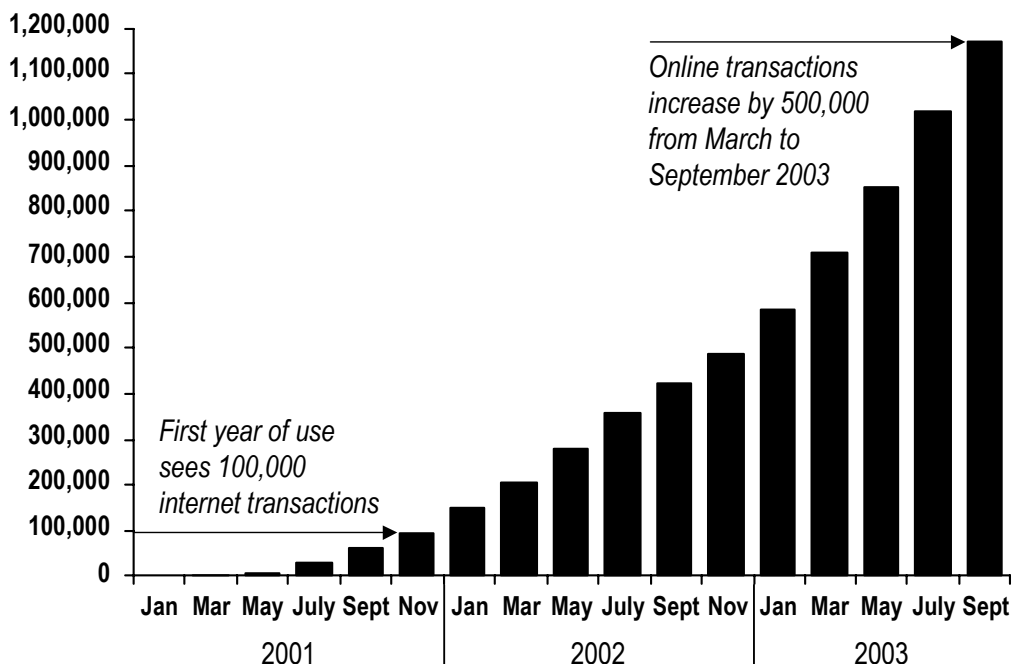
\$495,000 Highway Safety Fund

Governor Locke's Priorities for **Government**

- ✓ Make government more efficient and effective
- ✓ Improve consumer protection
- ✓ Improve accuracy and reliability of voting systems

Increased Internet Transactions Improve Service

Total Department of Licensing Internet Transactions



Source: Department of Licensing

Simplifying the Job Application Process

Applying for a state job is now as simple as clicking a computer mouse

Applying for state employment used to be a huge and aggravating job all by itself. The complicated, paper-choked path was long and expensive, not only for job seekers but for the Washington Department of Personnel.

After a lot of hard work, employees at the Department of Personnel have changed all that, saving taxpayers at least \$1.7 million so far, and sparing job seekers and state workers miles of red tape.

Applying for a state job is now as simple as clicking a computer mouse, which is exactly how it is done.

Rather than travel to a personnel office to learn if a job is even available – then fill out a paper application, take a test and jump through several more time-consuming hoops – a job-seeker can do it all on-line at the department's website.

The new system reduced the number of application steps from 11 to four, and the time it takes from application to interview from weeks to a matter of days.

The benefits of the new system include not only convenience and less bureaucracy, but also a greater chance for the state to find and hire the best candidates. Under the old, slow system, job candidate lists often were out of date by the time they were processed. Now, instead of weeks, candidate names can be available to managers within four hours of application.

In a survey of agency managers, 86 percent expressed satisfaction with the quality of candidates last year. That compared with only 33 percent who expressed satisfaction in 1998. Similar results were found when agency managers were asked to rate candidate availability.

Bottom Line: The Department of Personnel saved taxpayers at least \$1.7 million so far, and made it easier for job seekers to apply for state jobs, resulting in a better, more diversified workforce.

Improves the accuracy and reliability of Washington's voting system by implementing provisions of the Help America Vote Act passed by Congress in 2002. Punch card voting machines are replaced and a statewide voter registration database is developed. Voting is easier for disabled citizens.

*\$3.1 million State Election Account,
\$10 million Federal Election Account*

Better protects insurance consumers.

Funding is provided to the state Insurance Commissioner to hire additional attorneys to combat increasing violations of the insurance code, as well as a rising number of unlicensed companies selling illegal health insurance plans. *\$139,000 Insurance Commissioner's Regulatory Account*

Reduces health care premiums for both the state and its employees. Surplus funds in the Public Employees Benefits Board (PEBB) Fund – which is supported by contributions from state government and state employees – are used to hold down health care premium costs. Average employee monthly contributions rise to \$89, an increase of \$9 instead of \$28. The state's monthly contribution rises to \$583 per employee, an increase of \$77 per employee, instead of the \$87 increase that had been expected.

\$24.1 million PEBB Fund balance



Protecting Water for People, Fish & Agriculture

Washington's natural resources need attention and protection every day of every year. Governor Locke's targeted investments to protect precious water resources, public health and other critical environmental needs cannot wait.

The Governor's Proposal:

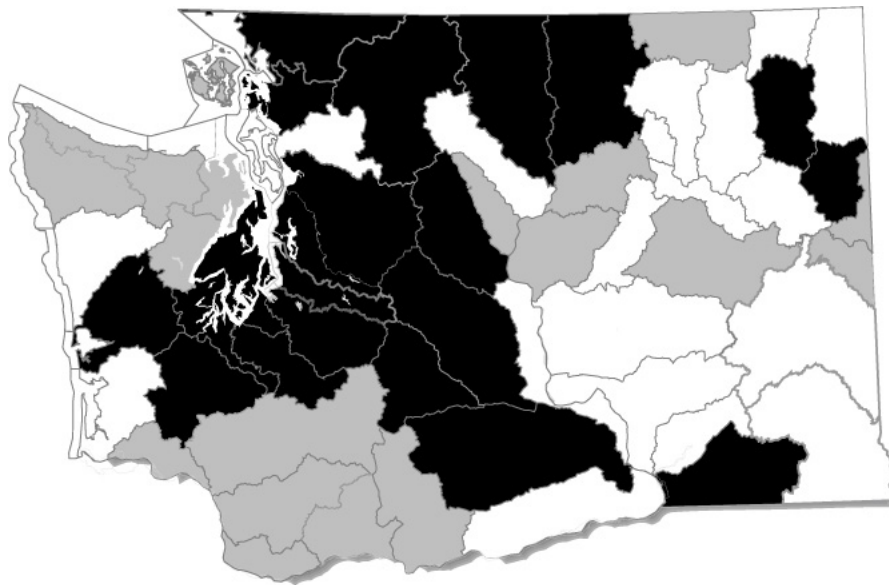
Continues water law reform by discouraging practices that waste water, boosting confidence in existing water rights and simplifying the way water rights are administered by the state. Prospects for achieving and protecting proper in-stream flows are improved. The foundation is laid for additional surface and ground water storage. Water conveyance, irrigation efficiency and wastewater reclamation is improved.



\$3 million GF-State, \$15.9 million Capital Budget

Governor Locke's Priorities for **Natural Resources**

- ✓ Provide clean water for people, fish and agriculture
- ✓ Restore endangered salmon populations
- ✓ Limit and clean up toxic chemicals in the environment

Setting Minimum In-Stream Flows Ensures the Health of Watersheds



-  Watersheds with targets being developed
-  Watersheds with stream flow targets

Source: Department of Ecology

Chinook Fishery a Success

“Selective fishing” saves endangered species and benefits economies

After years of poor salmon runs and season shutdowns, sport fishers got a full month this summer to fish for hatchery-reared chinook salmon in the Strait of Juan de Fuca. Anglers made 26,000 fishing trips in July and August. They spent an estimated \$3 million in local economies along the way.

Anglers and local business owners proclaimed the return of the “good old days” of salmon fishing, but the 2003 fishery actually represents a triumph of smart planning by the state Department of Fish and Wildlife.

Under the department’s new “selective fishing” rules, anglers can keep only those chinook salmon marked for identification as a hatchery fish by a clip on one fin. Any wild, unmarked salmon must be returned to the water to spawn.

The chinook fishery in the Strait is one of more than 50 recreational salmon fisheries to “go selective” since the mid-1990s, when the department and its partners began mass-marking hatchery salmon.

The department, treaty tribes and federal agencies routinely mark millions of fingerlings every year, laying the groundwork for selective fisheries from the Snake River to the Pacific coast.

This quiet revolution in salmon and steelhead management has allowed fisheries managers to set fishing seasons that target abundant hatchery fish, while saving depressed wild stocks, some protected by the federal Endangered Species Act.

Most anglers are following the rules, recognizing that the alternative is no fishing at all in many parts of the state.

Rural communities are major beneficiaries of the state’s efforts to promote selective fisheries. According to the U.S. Fish and Wildlife Service, anglers spent \$854 million in 2001 on fishing trips in Washington, many of them in rural areas of the state.

Bottom line: The state’s investment in selective fishing is benefiting wild salmon runs, anglers and local economies.

Begins to implement water-related legal settlements involving the Department of Ecology. Settlements increase water conservation measures in the Sunnyside Valley Irrigation District and purchase water to offset additional water use by the cities of Richland, Kennewick, Pasco, and West Richland. *\$3.3 million Capital Budget*

Strengthens efforts to protect natural resources. Grants are provided to improve Puget Sound water quality in Hood Canal. Benchmarks are established to measure the state’s progress in meeting sustainability goals. Fish tissue monitoring for mercury and other chemicals is expanded at 20 additional lakes a year. Criteria are established to identify the state’s most serious toxic chemical problems, and plans are being developed to eliminate them. The Biodiversity Council gets support to develop a strategy for preserving the state’s wide range of natural habitats. *\$475,000 GF-State, \$561,000 other state funds*

Permits recreational sockeye fishing on Lake Washington and an additional recreational salmon fishery in Eastern Washington. The Department of Fish and Wildlife must increase monitoring and samplings at the fisheries to ensure fish listed under the Endangered Species Act are protected. *\$150,000 GF-State*



Meeting Critical Building Needs

The needs are many but the dollars scarce for state construction projects in the coming fiscal year. Governor Locke funds projects that advance his highest priority – education. He also finances critical projects that cannot wait until the next two-year budget cycle.

The Governor uses previously authorized higher education construction bonds to start projects this biennium. Work also begins on a new prison to handle a growing number of inmates. And new projects are launched to make wiser use of water, which is key to the state's economic future.

The Governor's Proposal:

Provides construction funding for four-year universities, including \$54.2 million in previously authorized Gardner-Evans construction bonds, to start or finish several projects in the state university system. Projects include:

- University of Washington – Modernize and improve the speed and efficiency of communications infrastructure, *\$8.5 million*; furnish and equip Bioengineering building, *\$2 million*; renovate Bagley Hall to create new photonics research laboratory, *\$4.3 million*; renovate and upgrade Psychology Department space in Guthrie Hall to meet current codes and standards, *\$3 million*; renovate existing UW space to create a laboratory for infectious disease research, *\$4 million*; complete phase II work on the Emergency Power Expansion project to ensure reliable campus electricity. *\$7.8 million*
- Washington State University – Begin work on an academic center in Spokane for nursing students and other programs, *\$6.7 million*; improve communications infrastructure, *\$6 million*; and start construction of a wastewater reclamation project. *\$3.4 million*
- Western Washington University – Renovate Bond Hall to add classrooms, remove asbestos and upgrade elevators. *\$4.9 million*
- Eastern Washington University – Upgrade classrooms in Senior Hall Phase II construction. *\$8.1 million*
- Central Washington University – Improve instruction capabilities at Des Moines Higher Education Center. *\$2 million*
- The Evergreen State College – Renovate Lab I first floor, to modernize laboratory space. *\$3.1 million*

Governor Locke's Priorities For Supplemental Capital Budget

- ✓ Finance facilities for higher education
- ✓ Finance projects that cannot wait for the next biennium
- ✓ Choose projects that are consistent with current policy

Supplies dollars for community college projects. Directs \$35 million in previously authorized Gardner-Evans construction bonds to finance:

- A new instruction building at Grays Harbor College to replace one of the oldest buildings in the community college system. *\$19.5 million*
- A welding and auto collision repair building at Bellingham Technical College to consolidate and provide the latest technology for retraining workers. *\$14.4 million*
- Design work for a science building replacement at Peninsula College to accommodate growing demand. *\$1.1 million*

Keeps prisons secure and efficient. Design and site development for a new, expandable 768-bed state prison in Franklin County is funded in preparation for construction in the 2005-07 Biennium. The new prison is needed to keep up with the number of inmates entering the corrections system and to ease overcrowding. Also reduces the number of inmates sent to out-of-state facilities. *\$45.6 million Capital Budget bonds*

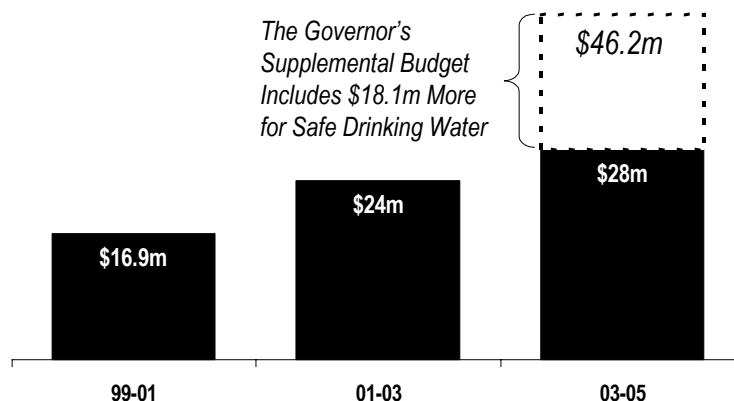
Makes better use of water resources. Provides funding for projects within the Governor's Water Strategy Initiative. Funding is used to lay groundwork for water storage facilities, irrigation and conveyance projects, and wastewater reclamation. The projects not only conserve water, but ultimately improve stream flows to create better habitat for fish. Also sets aside \$3.3 million to settle water rights disputes involving Quad Cities and the Sunnyside Valley Irrigation District. *\$15.3 Capital Budget bonds, \$525,000 other state funds*

Forges ahead with transportation improvements by adjusting to a state Supreme Court ruling upholding Initiative 776, which lowered or repealed some vehicle taxes, reducing state transportation revenue by \$43.3 million. Instead of canceling any state highway or ferry projects, the Governor's budget uses existing fund balances and additional federal funds to keep the projects on schedule.

Funds Lewis and Clark Remembrance Art Project, preserving our cultural heritage. *\$5 million*

Provides more funding to ensure clean drinking water. Makes use of increased federal dollars to finance projects to improve drinking water systems around the state. *\$18.1 million federal*

Utilizing Federal Funds to Ensure Safe Drinking Water



Source: Office of Financial Management

